

**REPORT OF THE AUDIT OF THE  
PERRY COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2011**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Denny Ray Noble, Perry County Judge/Executive  
Members of the Perry County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Perry County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements.

We engaged Morgan-Franklin, LLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated Perry County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen  
Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE PERRY COUNTY FISCAL COURT**

**June 30, 2011**

Morgan-Franklin, LLC has completed the audit of the Perry County Fiscal Court for fiscal year ended June 30, 2011. We have issued unqualified opinions on the governmental activities, each major fund, and aggregate remaining fund information financial statements of Perry County, Kentucky.

#### **Financial Condition:**

The fiscal court had net assets of \$7,721,196 as of June 30, 2011. The fiscal court had unrestricted net assets of \$287,352 in its governmental activities as of June 30, 2011, with total net assets of \$7,721,196. The fiscal court had total debt principal as of June 30, 2011 of \$15,594,083 with \$1,118,575 due within the next year.

#### **Report Comments:**

- 2011-01 The County Should Record Expenditures And Revenues In Accordance With The Budget Manual Provided By The Department For Local Government (DLG)
- 2011-02 The Treasurer Should Establish Adequate Controls Over The Public Properties Corporation Fund
- 2011-03 The Treasurer Should Prepare An Accurate Liabilities Schedule
- 2011-04 The County Does Not Have Adequate Controls Over Disbursements
- 2011-05 The Fiscal Court Should Improve Controls Over Payroll Procedures
- 2011-06 The County's Depreciation Schedule Should Be Updated For Additions Or Disposals
- 2011-07 The County Judge/Executive Should Prepare And Present Quarterly Reports To The Fiscal Court
- 2011-08 The County Judge/Executive Was Overpaid During 2010
- 2011-09 The Jailer Was Overpaid During 2010

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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### APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM





***Morgan-Franklin, LLC***  
***Certified Public Accountants***

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To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Denny Ray Noble, Perry County Judge/Executive  
Members of the Perry County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Perry County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Perry County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Perry County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Perry County Fiscal Court as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Denny Ray Noble, Perry County Judge/Executive  
Members of the Perry County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated February 6, 2012, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The County has omitted the management's discussion and analysis that Governmental Accounting Standards Board (GASB) requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Denny Ray Noble, Perry County Judge/Executive  
Members of the Perry County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2011-01 The County Should Record Expenditures And Revenues In Accordance With The Budget Manual Provided By The Department For Local Government (DLG)
- 2011-02 The Treasurer Should Establish Adequate Controls Over The Public Properties Corporation Fund
- 2011-03 The Treasurer Should Prepare An Accurate Liabilities Schedule
- 2011-04 The County Does Not Have Adequate Controls Over Disbursements
- 2011-05 The Fiscal Court Should Improve Controls Over Payroll Procedures
- 2011-06 The County's Depreciation Schedule Should Be Updated For Additions Or Disposals
- 2011-07 The County Judge/Executive Should Prepare And Present Quarterly Reports To The Fiscal Court
- 2011-08 The County Judge/Executive Was Overpaid During 2010
- 2011-09 The Jailer Was Overpaid During 2010

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

February 6, 2012

## PERRY COUNTY OFFICIALS

For The Year Ended June 30, 2011

**Fiscal Court Members:**

Denny Ray Noble	County Judge/Executive
James F. Hurley	Magistrate
Ronald Combs	Magistrate
Earl Brashear	Magistrate

**Other Elected Officials:**

John Carl Shackelford	County Attorney
Jeanette Hughes	Jailer
Haven King	County Clerk
Roger Collins	Circuit Court Clerk
Les Burgett	Sheriff
John Frank Gross	Property Valuation Administrator
Jimmy Maggard	Coroner

**Appointed Personnel:**

Tonya Delph	County Treasurer
Joyce Napier	Finance Officer

**PERRY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**



**PERRY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 756,860
Total Current Assets	<u>756,860</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Construction in Progress	204,255
Land and Land Improvements	2,730,802
Buildings	13,052,816
Vehicles and Equipment	1,731,398
Infrastructure	4,839,148
Total Noncurrent Assets	<u>22,558,419</u>
Total Assets	<u>23,315,279</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Bonds Payable	880,000
Financing Obligations Payable	238,575
Total Current Liabilities	<u>1,118,575</u>
Noncurrent Liabilities:	
Bonds Payable	12,855,000
Financing Obligations Payable	1,620,508
Total Noncurrent Liabilities	<u>14,475,508</u>
Total Liabilities	<u>15,594,083</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	6,964,336
Restricted:	
Economic Development	93
Protection to Persons and Property	42,384
Roads	450,815
Unrestricted	263,568
Total Net Assets	<u>\$ 7,721,196</u>

The accompanying notes are an integral part of the financial statements.

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**PERRY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**



**PERRY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

					Net (Expenses)
					Revenues and
					Changes
					in Net Assets
Program Revenues Received					Primary
					Government
Functions/Programs			Operating	Capital	
Reporting Entity	Expenses	Charges for	Grants and	Grants and	Governmental
		Services	Contributions	Contributions	Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 4,347,852	\$ 841,129	\$ 545,018	\$ 8,406	\$ (2,953,299)
Protection to Persons and Property	2,828,278	16,421	261,331		(2,550,526)
General Health and Sanitation	1,453,951	3,000		1,627,046	176,095
Social Services	256,060				(256,060)
Recreation and Culture	291,861	19,928			(271,933)
Roads	4,255,763		5,536,892		1,281,129
Interest on Long-term Debt	792,759				(792,759)
Total Governmental Activities	<u>\$14,226,524</u>	<u>\$ 880,478</u>	<u>\$ 6,343,241</u>	<u>\$ 1,635,452</u>	<u>(5,367,353)</u>
General Revenues:					
Taxes:					
					703,808
					269,774
					273,127
					629,022
					80,102
					332,035
					349,484
					2,637,352
					(2,730,001)
					10,451,197
					\$ 7,721,196

The accompanying notes are an integral part of the financial statements.

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**PERRY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2011**

**PERRY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2011**

	<b>General Fund</b>	<b>Road Fund</b>	<b>LGEA Fund</b>	<b>Coal Severance Special Projects Fund</b>	<b>Public Properties Corporation Bond Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 170,887	\$ 46,070	\$ 24,163	\$ 3,512	\$ 469,508
Total Assets	<u>170,887</u>	<u>46,070</u>	<u>24,163</u>	<u>3,512</u>	<u>469,508</u>
<b>FUND BALANCES</b>					
Restricted:					
Economic Development					
Protection to Persons and Property					
Roads					450,815
Assigned:					
General Health and Sanitation				3,512	
Roads		46,070	24,163		
Debt Service					18,693
Unassigned	<u>170,887</u>				
Total Fund Balances	<u>\$ 170,887</u>	<u>\$ 46,070</u>	<u>\$ 24,163</u>	<u>\$ 3,512</u>	<u>\$ 469,508</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Changes in Net Assets:**

Total Fund Balances	\$ 756,860
Amounts Reported for Governmental Activities in the Statement of	
Net Assets are Different Because:	
Capital Assets Used in Governmental Activities are not Financial Resources and,	
Therefore, are not Reported in the Funds.	35,551,148
Accumulated Depreciation	(12,992,729)
Long-term Debt is not Due and Payable in the Current Period and, Therefore, is not	
Reported in the Funds.	
Financing Obligations	(1,859,083)
Bonded Debt	<u>(13,735,000)</u>
Net Assets of Governmental Activities	<u>\$ 7,721,196</u>

The accompanying notes are an integral part of the financial statements.

**PERRY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2011**  
**(Continued)**

<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<u>\$ 42,720</u>	<u>\$ 756,860</u>
<u>42,720</u>	<u>756,860</u>
93	93
42,384	42,384
	450,815
	3,512
	70,233
243	18,936
<u>          </u>	<u>170,887</u>
<u>\$ 42,720</u>	<u>\$ 756,860</u>

The accompanying notes are an integral part of the financial statements.

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**PERRY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

**PERRY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

	<b>General Fund</b>	<b>Road Fund</b>	<b>LGEA Fund</b>	<b>Coal Severance Special Projects Fund</b>
<b>REVENUES</b>				
Taxes	\$ 1,579,742	\$	\$	\$
In Lieu Taxes		4,409		
Excess Fees	116,112			
Licenses and Permits	332,035			
Intergovernmental	683,932	1,609,130	3,952,144	1,432,784
Charges for Services	25,482		19,928	
Miscellaneous	140,454	69,618	93,084	
Interest	656	1,329	2,086	1,334
Total Revenues	<u>2,878,413</u>	<u>1,684,486</u>	<u>4,067,242</u>	<u>1,434,118</u>
<b>EXPENDITURES</b>				
General Government	1,608,029	86		200,000
Protection to Persons and Property	2,126,058		148,927	
General Health and Sanitation	24,021		184,307	1,101,970
Social Services			236,139	224,176
Recreation and Culture	45,902		238,400	
Transportation Facilities and Services		76,623		
Roads		1,548,681	1,021,774	
Debt Service	193,943	361,084	32,342	
Administration	1,317,981	173,664	834,713	89,106
Total Expenditures	<u>5,315,934</u>	<u>2,160,138</u>	<u>2,696,602</u>	<u>1,615,252</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,437,521)</u>	<u>(475,652)</u>	<u>1,370,640</u>	<u>(181,134)</u>
<b>Other Financing Sources (Uses)</b>				
Bond Proceeds				
Transfers from Other Funds	2,901,313	510,307	948,996	53,439
Transfers to Other Funds	(373,954)	(13,841)	(2,813,000)	(1,165,995)
Total Other Financing Sources (Uses)	<u>2,527,359</u>	<u>496,466</u>	<u>(1,864,004)</u>	<u>(1,112,556)</u>
Net Change in Fund Balances	89,838	20,814	(493,364)	(1,293,690)
Fund Balances - Beginning (Restated)	81,049	25,256	517,527	1,297,202
Fund Balances - Ending	<u>\$ 170,887</u>	<u>\$ 46,070</u>	<u>\$ 24,163</u>	<u>\$ 3,512</u>

The accompanying notes are an integral part of the financial statements.

**PERRY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>Public Properties Corporation Bond Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$ 275,929	\$ 1,855,671
		4,409
		116,112
		332,035
187,223	811,785	8,676,998
		45,410
	156,000	459,156
216	1,104	6,725
<u>187,439</u>	<u>1,244,818</u>	<u>11,496,516</u>
	1,487	1,809,602
	435,493	2,710,478
	140,823	1,451,121
		460,315
		284,302
		76,623
1,549,185		4,119,640
551,982	477,945	1,617,296
2,059	70,551	2,488,074
<u>2,103,226</u>	<u>1,126,299</u>	<u>15,017,451</u>
 (1,915,787)	 118,519	 (3,520,935)
 2,000,000		 2,000,000
366,812	95,000	4,875,867
<u>(83,313)</u>	<u>(425,764)</u>	<u>(4,875,867)</u>
<u>2,283,499</u>	<u>(330,764)</u>	<u>2,000,000</u>
 367,712	 (212,245)	 (1,520,935)
101,796	254,965	\$ 2,277,795
<u>\$ 469,508</u>	<u>\$ 42,720</u>	<u>\$ 756,860</u>

The accompanying notes are an integral part of the financial statements.

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**PERRY COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**



**PERRY COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

Net Change in Fund Balances - Total Governmental Funds	\$ (1,520,935)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	2,484,287
Depreciation Expense	(2,507,107)
Net Book Value of Disposed Assets	(10,792)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Bond Proceeds	(2,000,000)
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Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations Principal Payments	274,537
Bond Principal Payments	550,000

Rounding Difference	9
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Change in Net Assets of Governmental Activities	\$ <u>(2,730,001)</u>
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**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The County presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Perry County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units.

**Blended Component Units**

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Units (Continued)

Perry County Justice Center Corporation

The Perry County Fiscal Court appoints a voting majority of the Justice Center Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Justice Center Corporation. Financial information for the Justice Center is blended with Perry County's financial statements. All activities of the Justice Center Corporation are accounted for as a non-major fund of the primary government.

Perry County Public Properties Corporation

The Perry County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended with Perry County's financial statements. Activities of the Public Properties Corporation are accounted for as a major fund and a non-major fund of the primary government.

**C. Perry County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Perry County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Perry County, Kentucky.

Circuit Court Clerk  
County Attorney  
Property Valuation Administrator  
County Clerk  
County Sheriff

**D. Property Tax Calendar**

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following assessment, and subject to lien and sale ninety days following April 15.

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Government-wide and Fund Financial Statements**

In March 2009, the Governmental Accounting Standard Board (GASB) issued Statement No. 54 – *Fund Balance Reporting and Government Fund Type Definitions*. This Statement established fund balance classifications based primarily on the extent to which the County is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures. The County implemented this standard effective July 1, 2010.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the county. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The primary government reports governmental activities using the economic resources measurement focus and modified cash basis of accounting. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds**

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences and donated assets are not reflected in the financial statements.

The County reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**Local Government Economic Assistance (LGEA) Fund** - The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the general fund.

**Coal Severance Special Projects Fund** – The purpose of this fund is to assist community development and infrastructure throughout Perry County. The source of revenue is coal severance tax revenue. The Department for Local Government requires the fiscal court to report and budget these receipts and expenditures.

**Public Properties Corporation Bond Fund** – The purpose of this fund is to pay long-term debt service obligations incurred. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Perry County Emergency Fund, E-911 Fund, Public Properties Fund, CDBG Fund, and the Justice Center Corporation Fund.

**Special Revenue Funds:**

The Road Fund, Local Government Economic Assistance Fund, Coal Severance Special Projects Fund, Perry County Emergency Fund, and E-911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Capital Projects Fund:**

The CDBG Fund is presented as a capital projects fund. Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

**Debt Service Fund:**

The Public Properties Corporation Bond Fund, Public Properties Corporation Fund and the Justice Center Corporation Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

**F. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	5-15
Office Furniture and Equipment	\$ 5,000	3-5
Vehicles	\$ 5,000	5-7
Infrastructure	\$ 20,000	2-5

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**I. Fund Equity**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining for classifications: restricted, committed, assigned, and unassigned.

*Restricted fund balance.* This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance.* These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the fiscal court – government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the fiscal court removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned fund balance.* This classification reflects the amounts constrained by the county’s “intent” to be used for specific purposes, but are neither restricted nor committed. The fiscal court and Judge/Executive have authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned fund balance.* This fund is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the county’s policy to use externally restricted resources first, the unrestricted revenues – committed, assigned, and unassigned – in order as needed.

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation ("FDIC") as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirement of KRS 41.240(4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance Restated	Increases	Decreases	
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$	\$ 204,255	\$	\$ 204,255
Land and Land Improvements	2,730,802			2,730,802
Total Capital Assets Not Being Depreciated	2,730,802	204,255		2,935,057
Capital Assets, Being Depreciated:				
Buildings	15,712,728			15,712,728
Vehicles and Equipment	3,519,539	221,398	(13,990)	3,726,947
Infrastructure	11,117,782	2,058,634		13,176,416
Total Capital Assets Being Depreciated	30,350,049	2,280,032	(13,990)	32,616,091
Less Accumulated Depreciation for:				
Buildings	(2,479,579)	(180,333)		(2,659,912)
Vehicles and Equipment	(1,730,393)	(268,354)	3,198	(1,995,549)
Infrastructure	(6,278,848)	(2,058,420)		(8,337,268)
Total Accumulated Depreciation	(10,488,820)	(2,507,107)	3,198	(12,992,729)
Total Capital Assets, Being Depreciated, Net	19,861,229	(227,075)	(10,792)	19,623,362
Governmental Activities Capital Assets, Net	<u>\$ 22,592,031</u>	<u>\$ (22,820)</u>	<u>\$ (10,792)</u>	<u>\$ 22,558,419</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 150,176
Protection to Persons and Property	143,018
General Health and Sanitation	2,830
Recreation and Culture	7,559
Roads, Including Depreciation of General Infrastructure Assets	<u>2,203,524</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,507,107</u>



**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 4. Long-Term Debt**

**A. Perry County Detention Center Bond**

In December 2001, the Perry County Fiscal Court issued \$6,115,000 in General Obligation Public Project Bonds to provide long-term financing the Perry County Detention Center. The proceeds were used to pay off three bond anticipation notes, which were used for the construction of the Perry County Detention Center. These bonds were scheduled to mature in June 2027 and have a variable interest rate of 2.0% to 5.0%. Semiannual interest payments are required in June and December and the principal amount is due each December.

On November 5, 2007, the Perry County Fiscal Court issued \$4,975,000 aggregate principal amount of General Obligation Refunding Bonds, Series 2007 for the purpose of advance refunding the Detention Center Bonds. The bonds were defeased on December 1, 2010.

**B. Perry County Justice Center Bond (Phase 2)**

In April 2002, the Perry County Justice Center Corporation issued bonds in order to construct the Perry County Justice Center. On the same day, the Perry County Justice Center Corporation, Administrative Office of the Courts (AOC), and the county entered into a use and sublease agreement for the purpose of obtaining office rental space for the AOC at the Justice Center.

The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as an agent for the Administrative Office of the Courts in order to plan, design, construct, manage and maintain the Justice Building. The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals for use of the Justice Building to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the use and sublease agreement, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the use and sublease agreement. The use and sublease agreement is renewable each year. The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The Administrative Office of the Courts with the execution of the use and sublease agreement has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until June 1, 2023, but the use and sublease agreement does not legally obligate the Administrative Office of Courts to do so. As of June 30, 2011, the principle balance outstanding was \$4,325,000. Debt service requirements for fiscal years ending June 30, 2011, and thereafter are as follows:

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**B. Perry County Justice Center Bond (Phase 2) (Continued)**

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2012	\$ 196,118	\$ 280,000
2013	183,575	290,000
2014	170,184	305,000
2015	155,885	320,000
2016	140,935	330,000
2017-2021	450,908	1,905,000
2022-2023	43,560	895,000
Totals	<u>\$ 1,341,165</u>	<u>\$ 4,325,000</u>

**C. KADD Lease - Cintas**

On June 1, 2010, the county entered into a bond agreement with U.S. Bank for the purpose of refinancing a KADD Cintas lease. Terms of the lease agreement stipulate a 9-year repayment schedule with semiannual interest payments and annual principal payments. As of June 30, 2011, the principal balance outstanding was \$855,000.

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2012	\$ 25,181	\$ 125,000
2013	22,681	130,000
2014	18,781	130,000
2015	14,881	140,000
2016	10,681	145,000
2017-2018	7,600	185,000
Totals	<u>\$ 99,805</u>	<u>\$ 855,000</u>

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**D. General Obligation Refunding Bonds, Series 2007**

In November 2007, the Perry County Fiscal Court issued \$4,975,000 in General Obligation Bonds to refund the Perry County Detention Center Bond from December 2001. The bonds are scheduled to mature in December 2026 and have an interest rate of 3.85%. Semiannual interest payments are required in June and December with principal amount due each December. As of June 30, 2011, the principal balance outstanding was \$4,900,000. Debt service requirements for fiscal years ending June 30, 2011, and thereafter is as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2012	\$ 184,319	\$ 225,000
2013	175,368	240,000
2014	166,128	240,000
2015	156,695	250,000
2016	146,781	265,000
2017-2021	569,896	1,485,000
2022-2026	255,158	1,795,000
2027	7,700	400,000
Totals	<u>\$ 1,662,045</u>	<u>\$ 4,900,000</u>

**E. KADD 2009 Land Purchased and Demolition Refinancing Note**

On May 13, 2009, Perry County Kentucky Justice Center Corporation entered into a capital lease agreement with the Kentucky Area Development District, on behalf of the Administrative Office of Courts, for the purpose of refinancing a prior debt issue. Terms of the lease agreement stipulate a 12-year repayment schedule with semiannual interest payments and annual principal payments.

The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as an agent for the Administrative Office of the Courts in order to plan, design, construct, manage and maintain the Justice Building. The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals for use of the Justice Building to be in the full amount of the annual principal and interest requirements of this KADD lease. Under the terms of an additional use and sublease agreement, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the use and sublease agreement. The use and sublease agreement is renewable each year. The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the KADD lease.

The use allowance payment has commenced prior to the occupancy of the Justice Building by the Administrative Office of the Courts. The Administrative Office of the Courts with the execution of the use and sublease agreement has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until May 2018, but the use and sublease agreement does not legally obligate the Administrative Office of the Courts to do so.

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**E. KADD 2009 Land Purchased and Demolition Refinancing Note (Continued)**

As of June 30, 2011, the principal balance outstanding was \$1,655,000. Debt service requirements for fiscal years ending June 30, 2011, and thereafter are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest &amp; Fees</u>	<u>Scheduled Principal</u>
2012	\$ 57,043	\$ 130,000
2013	54,335	135,000
2014	51,253	135,000
2015	47,760	140,000
2016	43,645	145,000
2017-2021	141,766	795,000
2022	9,588	175,000
Totals	<u>\$ 405,390</u>	<u>\$ 1,655,000</u>

**F. KADD Road Improvements Bonds**

On November 12, 2010, the county entered into a bond agreement with The Bank of New York Mellon Trust Company for the purpose of financing various road improvements. Terms of the agreement stipulate a 10-year repayment schedule with semiannual interest payments and annual principal payments. Interest rates range from 2.0% to 4.0%. As of June 30, 2011, the principal balance outstanding was \$2,000,000.

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2012	\$ 57,375	\$ 120,000
2013	54,975	120,000
2014	51,775	200,000
2015	47,725	205,000
2016	43,050	210,000
2017-2021	111,901	1,145,000
Totals	<u>\$ 366,801</u>	<u>\$ 2,000,000</u>

**G. KACO Leasing Trust - Trucks**

On July 27, 2007, the Perry County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$152,141 for the purchase of trucks. The agreement requires variable monthly payments for 41 months to be paid in full January 20, 2011 with an interest rate of 4.21%. This debt was paid in full as of June 30, 2011.

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**H. KACO Leasing Trust - Excavator**

On November 5, 2007, the Perry County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$76,682 for the purchase of an excavator. The agreement requires variable monthly payments for 60 months to be paid in full November 20, 2012 with an interest rate of 4.21%. The principal balance of the agreement is \$24,877 as of June 30, 2011. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2012	\$ 939	\$ 17,335
2013	172	7,542
Totals	<u>\$ 1,111</u>	<u>\$ 24,877</u>

**I. KACO Leasing Trust - Vehicles**

On March 11, 2008, the Perry County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$33,723 for the purchase of vehicles. The agreement requires variable monthly payments for 48 months to be paid in full March 20, 2012 with an interest rate of 3.959%. The principal balance of the agreement is \$6,553 as of June 30, 2011. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2012	\$ 251	\$ 6,553
Totals	<u>\$ 251</u>	<u>\$ 6,553</u>

**J. KACO Leasing Trust – Two Bush Hog Tractors**

On August 17, 2009, the Perry County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$175,682 for the purchase of two bush hog tractors. The agreement requires variable monthly payments for 60 months to be paid in full July 20, 2014 with an interest rate of 4.365%. The principal balance of the agreement is \$109,682 as of June 30, 2011. Lease payments for the remaining years are:

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**J. KACO Leasing Trust – Two Bush Hog Tractors (Continued)**

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2012	\$ 4,242	\$ 36,000
2013	2,729	36,000
2014	1,217	36,000
2015	33	1,682
Totals	<u>\$ 8,221</u>	<u>\$ 109,682</u>

**K. KACO Leasing Trust – County Road Repair and Maintenance**

On October 13, 2009, the Perry County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$2,000,000 for county road repair and maintenance. The agreement requires variable monthly payments for 120 months to be paid in full September 20, 2019 with an interest rate of 4.267%. The principal balance of the agreement is \$1,717,970 as of June 30, 2011. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2012	\$ 67,879	\$ 178,687
2013	60,400	186,153
2014	52,640	193,930
2015	44,536	202,032
2016	36,147	210,473
2017-2020	54,909	746,695
Totals	<u>\$ 316,511</u>	<u>\$ 1,717,970</u>

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**L. Changes in Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 7,690,000	\$ 2,000,000	\$ 280,000	\$ 9,410,000	\$ 600,000
Revenue Bonds	4,595,000		270,000	4,325,000	280,000
Financing Obligations	2,133,620		274,537	1,859,083	238,575
Governmental Activities					
Long-term Liabilities	<u>\$ 14,418,620</u>	<u>\$ 2,000,000</u>	<u>\$ 824,537</u>	<u>\$15,594,083</u>	<u>\$ 1,118,575</u>

**Note 5. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to be allocated as follows: 5% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for nonhazardous employees was 16.93 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent.

The county's contribution for FY 2010 was \$551,059 and FY 2011 was \$553,280.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 5. Employee Retirement System (Continued)**

CERS also provides post retirement health care coverage as follows:

For member participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>	<u>% Paid by Member through Payroll Deduction</u>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 6. Deferred Compensation**

The Perry County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.



**PERRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 7. Insurance**

For the fiscal year ended June 30, 2011, Perry County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 8. Prior Period Adjustments**

The beginning net asset balance as of June 30, 2011 for governmental activities of Perry County Fiscal Court has been restated. We have made adjustments to correct prior year capital asset that were not recorded. The following is a reconciliation of beginning net assets:

	<u><b>Governmental Activities</b></u>
Beginning Net Assets	\$ 10,379,361
Adjustments:	
Capital Asset Adjustment	71,848
Miscellaneous Adjustment	<u>(12)</u>
Restated Beginning Balance	<u><u>\$ 10,451,197</u></u>

**Note 9. Related Organizations, Joint Venture, and Jointly Governed Organizations**

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Kentucky River Regional Jail is considered a joint venture of the Perry County Fiscal Court and the Knott County Fiscal Court. Each participating county meets its proportionate share of the debt service requirements on the bonds as follows: 75% Perry County and 25% Knott County.

**Note 10. Subsequent Review**

Subsequent events have been evaluated through February 6, 2012, which is the date the financial statements were available to be issued.

**Note 11. Construction In Progress**

Construction In Progress consisted of the following project as of June 30, 2011:

Gays Creek Campground Recreation Vehicle Park	\$204,255
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**PERRY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**



**PERRY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 1,916,396	\$ 1,954,378	\$ 1,579,742	\$ (374,636)
Excess Fees	20,000	20,000	80,102	60,102
Licenses and Permits	358,000	358,000	332,035	(25,965)
Intergovernmental Revenue	386,200	400,195	566,100	165,905
Charges for Services	29,500	29,500	25,482	(4,018)
Miscellaneous	101,500	157,151	140,383	(16,768)
Interest	1,800	1,800	499	(1,301)
Total Revenues	<u>2,813,396</u>	<u>2,921,024</u>	<u>2,724,343</u>	<u>(196,681)</u>
<b>EXPENDITURES</b>				
General Government	1,379,946	1,631,001	1,608,029	22,972
Protection to Persons and Property	16,500	19,771	18,445	1,326
General Health and Sanitation	21,000	24,035	24,021	14
Recreation and Culture	38,500	47,500	45,902	1,598
Debt Service		138,841	138,841	0
Administration	<u>1,547,450</u>	<u>1,179,876</u>	<u>1,156,666</u>	<u>23,210</u>
Total Expenditures	<u>3,003,396</u>	<u>3,041,024</u>	<u>2,991,904</u>	<u>49,120</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(190,000)</u>	<u>(120,000)</u>	<u>(267,561)</u>	<u>(147,561)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds	100,000	100,000	915,000	815,000
Transfers to Other Funds	<u>(220,000)</u>	<u>(220,000)</u>	<u>(510,307)</u>	<u>(290,307)</u>
Total Other Financing Sources (Uses)	<u>(120,000)</u>	<u>(120,000)</u>	<u>404,693</u>	<u>524,693</u>
Net Changes in Fund Balance	(310,000)	(240,000)	137,132	377,132
Fund Balance - Beginning	<u>310,000</u>	<u>310,000</u>	<u>29,119</u>	<u>(280,881)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 70,000</u>	<u>\$ 166,251</u>	<u>\$ 96,251</u>

**PERRY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts,</b>	<b>Final Budget</b>
			<b>(Budgetary</b>	<b>Positive</b>
			<b>Basis)</b>	<b>(Negative)</b>
<b>REVENUES</b>				
In Lieu Tax Payments	\$ 7,000	\$ 7,000	\$ 4,409	\$ (2,591)
Intergovernmental Revenue	1,273,214	1,610,628	1,609,130	(1,498)
Miscellaneous	16,000	73,359	69,618	(3,741)
Interest	5,200	5,200	1,329	(3,871)
Total Revenues	<u>1,301,414</u>	<u>1,696,187</u>	<u>1,684,486</u>	<u>(11,701)</u>
<b>EXPENDITURES</b>				
General Government		100	86	14
Transportation Facilities and Services		77,000	76,623	377
Roads	1,760,000	1,932,923	1,548,681	384,242
Debt Service	535,500	672,300	361,084	311,216
Administration	361,200	303,573	173,664	129,909
Total Expenditures	<u>2,656,700</u>	<u>2,985,896</u>	<u>2,160,138</u>	<u>825,758</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,355,286)</u>	<u>(1,289,709)</u>	<u>(475,652)</u>	<u>814,057</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds	805,286	805,286	510,307	(294,979)
Transfers To Other Funds			(13,841)	(13,841)
Total Other Financing Sources (Uses)	<u>805,286</u>	<u>805,286</u>	<u>496,466</u>	<u>(308,820)</u>
Net Changes in Fund Balance	(550,000)	(484,423)	20,814	505,237
Fund Balance - Beginning	<u>550,000</u>	<u>550,000</u>	<u>25,256</u>	<u>(524,744)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 65,577</u>	<u>\$ 46,070</u>	<u>\$ (19,507)</u>

**PERRY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 3,697,056	\$ 3,845,056	\$ 3,952,144	\$ 107,088
Charges for Services	11,000	11,000	19,928	8,928
Miscellaneous	61,500	106,044	93,084	(12,960)
Interest	5,500	5,500	2,086	(3,414)
Total Revenues	<u>3,775,056</u>	<u>3,967,600</u>	<u>4,067,242</u>	<u>99,642</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	160,605	155,597	148,927	6,670
General Health and Sanitation	175,275	186,783	184,307	2,476
Recreation and Culture	166,000	250,395	238,400	11,995
Social Services	203,550	237,456	236,139	1,317
Roads	1,010,000	1,023,777	1,021,774	2,003
Debt Service	56,000	33,043	32,342	701
Capital Improvements	6,000	262		262
Administration	635,000	837,538	834,713	2,825
Total Expenditures	<u>2,412,430</u>	<u>2,724,851</u>	<u>2,696,602</u>	<u>28,249</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,362,626</u>	<u>1,242,749</u>	<u>1,370,640</u>	<u>127,891</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds			948,996	948,996
Transfers to Other Funds	<u>(2,780,818)</u>	<u>(2,780,818)</u>	<u>(2,813,000)</u>	<u>(32,182)</u>
Total Other Financing Sources (Uses)	<u>(2,780,818)</u>	<u>(2,780,818)</u>	<u>(1,864,004)</u>	<u>916,814</u>
Net Changes in Fund Balances	(1,418,192)	(1,538,069)	(493,364)	1,044,705
Fund Balances - Beginning	<u>1,418,192</u>	<u>1,418,192</u>	<u>517,527</u>	<u>(900,665)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ (119,877)</u>	<u>\$ 24,163</u>	<u>\$ 144,040</u>

**PERRY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>Coal Severance Special Projects Fund</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenues	\$ 1,156,000	\$ 1,156,000	\$ 1,432,784	\$ 276,784
Interest	2,500	2,500	1,334	(1,166)
Total Revenues	1,158,500	1,158,500	1,434,118	275,618
<b>EXPENDITURES</b>				
General Government	1,508,500	200,000	200,000	0
General Health and Sanitation		1,475,980	1,101,970	374,010
Social Services		225,000	224,176	824
Administration		136,121	89,106	47,015
Total Expenditures	1,508,500	2,037,101	1,615,252	421,849
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(350,000)	(878,601)	(181,134)	697,467
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds			53,439	53,439
Transfers to Other Funds			(1,165,995)	(1,165,995)
Total Other Financing Sources (Uses)	0	0	(1,112,556)	(1,112,556)
Net Changes in Fund Balances	(350,000)	(878,601)	(1,293,690)	(415,089)
Fund Balances - Beginning	350,000	1,297,201	1,297,202	1
Fund Balances - Ending	\$ 0	\$ 418,600	\$ 3,512	\$ (415,088)



**PERRY COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2011**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Reconciliation of Budgetary Comparison Schedule of the General Fund to the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds – Modified Cash**

	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers &amp; Other Financing Sources (Uses)</u>	<u>Fund Balances - Beginning</u>
<b>General Fund</b>				
Budgetary Comparison Schedule	\$ 2,724,343	\$ 2,991,904	\$ 404,693	\$ 29,119
Vehicles Purchased by Sheriff	36,010	36,010		
Transfers Recorded As Debt Service		(138,841)	(138,841)	
Amounts Budgeted in a Separate Fund (Jail Fund) By the County that does not Meet the Definition of a Special Revenue Fund As Defined by GASB 54	<u>118,060</u>	<u>2,426,861</u>	<u>2,261,507</u>	<u>51,930</u>
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$ 2,878,413</u>	<u>\$ 5,315,934</u>	<u>\$ 2,527,359</u>	<u>\$ 81,049</u>

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**PERRY COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2011**

**PERRY COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2011**

	<b>Perry County Emergency Fund</b>	<b>E-911 Fund</b>	<b>CDBG Fund</b>	<b>Public Properties Corporation Fund</b>	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 4,100	\$ 38,284	\$ 93	\$ 243	.
Total Assets	<u>4,100</u>	<u>38,284</u>	<u>93</u>	<u>243</u>	:
<b>FUND BALANCES</b>					
Restricted:					
Economic Development			93		
Protection to Persons and Property	4,100	38,284			
Assigned:					
Debt Service				243	.
Total Fund Balances	<u>\$ 4,100</u>	<u>\$ 38,284</u>	<u>\$ 93</u>	<u>\$ 243</u>	:

The accompanying notes are an integral part of the financial statements.

**PERRY COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**June 30, 2011**  
**(Continued)**

<b>Total</b> <b>Non-Major</b> <b>Governmental</b> <b>Funds</b>
<hr/>
\$ 42,720
<hr/>
42,720
<hr/>
93
42,384
<hr/>
243
<hr/>
\$ 42,720
<hr/>

The accompanying notes are an integral part of the financial statements.

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**PERRY COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2011**

**PERRY COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2011**

	<b>Perry County Emergency Fund</b>	<b>E-911 Fund</b>	<b>CDBG Fund</b>	<b>Public Properties Corporation Fund</b>
<b>REVENUES</b>				
Taxes	\$	\$ 275,929	\$	\$
Intergovernmental	1,867	135,711	194,262	
Miscellaneous				156,000
Interest		186		918
Total Revenues	<u>1,867</u>	<u>411,826</u>	<u>194,262</u>	<u>156,918</u>
<b>EXPENDITURES</b>				
General Government	1,487			
Protection to Persons and Property		435,493		
General Health and Sanitation			140,823	
Debt Service				
Administration		68,551		
Total Expenditures	<u>1,487</u>	<u>504,044</u>	<u>140,823</u>	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>380</u>	<u>(92,218)</u>	<u>53,439</u>	<u>156,918</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Funds		58,000		37,000
Transfers to Other Funds		(20,000)	(53,439)	(352,325)
Total Other Financing Sources (Uses)		<u>38,000</u>	<u>(53,439)</u>	<u>(315,325)</u>
Net Change in Fund Balances	380	(54,218)		(158,407)
Fund Balances - Beginning	3,720	92,502	93	158,650
Fund Balances - Ending	<u>\$ 4,100</u>	<u>\$ 38,284</u>	<u>\$ 93</u>	<u>\$ 243</u>

The accompanying notes are an integral part of the financial statements.



**PERRY COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>Justice Center Corporation Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$
479,945	275,929
	811,785
	156,000
	1,104
<u>479,945</u>	<u>1,244,818</u>
	1,487
	435,493
	140,823
477,945	477,945
2,000	70,551
<u>479,945</u>	<u>1,126,299</u>
	118,519
	95,000
	(425,764)
	<u>(330,764)</u>
	(212,245)
	254,965
<u>\$ 0</u>	<u>\$ 42,720</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



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***Certified Public Accountants***

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The Honorable Denny Ray Noble, Perry County Judge/Executive  
Members of the Perry County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Perry County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 6, 2012. Perry County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Perry County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Perry County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Perry County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Perry County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2011-01 through 2011-04 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2011-05 and 2011-06 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Perry County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2011-07 through 2011-09.

The Perry County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

February 6, 2012

**PERRY COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2011**





**PERRY COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2011**

**INTERNAL CONTROL - MATERIAL WEAKNESSES:**

2011-01    The County Should Record Expenditures And Revenues In Accordance With The Budget Manual Provided By The Department For Local Government (DLG)

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Condition: During our audit, we noted several disbursements and revenues that were not properly coded. Transfers out to the Public Properties Corporation from various funds were incorrectly coded to a debt service account. Intergovernmental revenues were incorrectly coded as transfers in.

Criteria: Counties are required to record expenditures in accordance with the Budget Manual provided by the Department for Local Government.

Effect: Failure to utilize the appropriate account codes could mislead financial statement users.

Cause: Lack of internal controls over proper account coding.

Recommendation: We recommend the County Treasurer ensure that all payments are posted to the correct account codes in the future. The County Treasurer should consult the Budget Manual provided by the Department for Local Government to determine the appropriate account code for expenditures.

*County's Response: In the future all expenditures and revenue will be double checked for the accuracy of the codes used.*

2011-02    The Treasurer Should Establish Adequate Controls Over The Public Properties Corporation Fund

Condition: During our audit, we noted that the Treasurer did not maintain bank statements, reconcile bank statements, or prepare financial statements for the Public Properties Corporation Fund.

Criteria: The Public Properties Corporation is a blended component unit of the Fiscal Court. The Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation. The Fiscal Court should require that proper records be maintained for the Perry County Public Properties Corporation.

Effect: The Fiscal Court is not aware of the transactions that are occurring relating to the receipts and disbursements of the Public Properties Corporation.

Cause: The Treasurer did not maintain bank statements, reconcile bank statements or prepare financial statements for the Public Properties Corporation Fund.

Recommendation: We recommend the Fiscal Court designate someone to receive the bank statements for the Public Properties Corporation, maintain a receipts and disbursements ledger, and prepare a financial statement.

*County's Response: The treasurer is in the process of making arrangements with Kathy Dryden, Fleming County Treasurer, to schedule ASAP a training session and will have the records and information prepared for next audit 6/30/12.*

**PERRY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

2011-03 The Treasurer Should Prepare An Accurate Liabilities Schedule

Condition: The Treasurer was not able to provide auditors with a complete and accurate liabilities schedule.

Criteria: Counties are required to include a complete and accurate liabilities schedule with their quarterly reports submitted to the Department for Local Government. The Treasurer should be aware of all debt held in the County's name and where the debt is held.

Effect: The Fiscal Court, State Local Debt Officer, and the Department for Local Government may not be aware of all debt held in the County's name. It appears that the State Local Debt Officer's approval of the issuance of new debt in the current year may have been based on a debt liabilities schedule that was inaccurate and incomplete.

Cause: Failure to prepare a complete and accurate liabilities schedule.

Recommendation: We recommend that the County ensure that the Treasurer keeps a complete and accurate liabilities schedule in the future.

*County's Response: The treasurer is in the process of making arrangements with Kathy Dryden, Fleming County Treasurer, to schedule ASAP a training session and will have the records and information prepared for next audit 6/30/12.*

2011-04 The County Does Not Have Adequate Controls Over Disbursements

Condition: During our audit, we tested twenty-five disbursements and noted the following:

- One instance where an invoice was not paid within thirty days
- One instance where a check dated 6/21/11 cleared on 8/18/11
- Two instances where invoices were not approved in the minutes
- Two instances where invoices were faxed from vendors. They were not on file at the Fiscal Court.
- Two instances where invoices were not provided
- Two invoices were not cancelled

While performing other testing, we noted the following:

- The Fiscal Court has a credit card. Fiscal Court and Senior Citizen personnel utilize this card. The Senior Citizen's center reimburses the Fiscal Court for purchases made. We tested one credit card statement. We noted an instance where the Senior Citizens overpaid the Fiscal Court \$19. All purchases except for three appeared to be purchases made by Senior Citizen personnel. We asked to view the three invoices that appeared to be purchases of the Fiscal Court and these invoices could not be provided to us. The invoices totaled \$1,276.
- The Fiscal Court paid \$7,089 in finance charges on a KACO All Lines Fund Insurance Policy for the Kentucky River Regional Jail.

**PERRY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

2011-04 The County Does Not Have Adequate Controls Over Disbursements (Continued)

Criteria:

- Per KRS 65.140(2), unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty working days of receipt of a vendor's invoice except when payment is delayed because the purchaser had made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor.
- Per KRS 68.275(2), the County Judge/Executive shall present all claims to the Fiscal Court for review prior to payment and the court, for good cause shown, may order that a claim not be paid.

It is a good internal control for

- The Treasurer to ensure all checks are mailed out timely.
- Supporting documentation for all disbursements to be maintained.
- The Treasurer to review backup documentation on credit card expenditures paid by other entities and ensures payments remitted to the Fiscal Court are correct. The Senior Citizen Bookkeeper should also keep documentation on credit card purchases to ensure payments remitted are correct.

Effect:

- The Fiscal Court paid \$7,089 in finance charges for an invoice that wasn't paid timely.
- When checks do not clear timely, it could be an indication of the Treasurer holding checks. By preparing checks for a date that is much earlier than when it is actually mailed, it appears that invoices are paid timely when this may not be true.
- Expenditures were not presented and approved by the Fiscal Court.
- With no supporting documentation, there is no way to determine if an expense is reasonable and necessary.
- Duplicate payments may occur and not be detected.

Cause: The Fiscal Court has a material weakness in its internal controls over accounting for expenditures. Either the controls in place are not working as planned or management has chosen to ignore or override the controls in place.

Recommendation: We recommend the Fiscal Court reevaluate their controls over disbursements to determine the controls that would best address the findings listed under the condition section above. The Fiscal Court may determine the controls listed above under the criteria section are adequate or may decide to implement other controls to eliminate such internal control weaknesses in the future.

*County's Response: Taking action to ensure filing is being done correctly and double checking all invoices are paid in timely matter.*

**PERRY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2011-05 The Fiscal Court Should Improve Controls Over Payroll Procedures

Condition: During our payroll testing we noted the following:

- Timesheets were not being properly completed. Of the six timesheets tested we noted the following:
  - Timesheets tested did not indicate the amount of time taken for lunch and/or breaks.
  - Some timesheets are not signed by a supervisor.
  - The courthouse janitor's supervisor did sign the timesheet, however, the total hours were not properly calculated. We calculated the employee worked 77.5 hours instead of the 80 hours for which the employee was paid. We also noted two days in which a time clock was not utilized. Time was manually written on the time sheet.
  - A road worker received 90 hours of pay (80 straight time and 10 overtime). After recalculating the timesheet, it appeared he had 91 total hours. We assumed he had taken a 1-hour lunch break each day because there was no indication of time out and time in for lunch. After recalculating the amount of overtime paid and reading the County's Policies and Procedures regarding overtime, it appears the County should have paid this employee 89 hours of straight time and 2 hours of overtime. We also noted one day in which his time was handwritten in and no time clock was utilized.
  - A dispatcher's time sheet did not agree to the supervisor's accumulation of time. Per the employee's timesheet he worked 40.5 hours in week one and 39.5 hours in week two. This employee should have received .5 hours of overtime for week one and 79.5 hours of straight time, he was paid for 80 hours of straight time. Time out was not indicated on the timesheet for two days and one day time out was handwritten in.
  - The Finance Officer appeared to have worked 39 hours in week one and 43 hours in week two. It is the County's policy that employees work a minimum of 40 hours per week. The finance officer was paid her regular salary.
  - The Treasurer appears to have worked 33.5 hours in week one and 45 hours in week two. Time out for one day is not indicated on her timesheet. It is the County's policy that employees work a minimum of 40 hours per week. The Treasurer was paid her regular salary.
  - On the road supervisor's timesheet, time was handwritten in on one day. No time clock was utilized for that day.
- The County did not prepare a pay plan as required by their policies and procedures. The County did not approve and set the salaries for County employees. Only pay rate increases were noted per reading the minutes.
- Personnel files were not maintained in accordance with the County's policies and procedures.
- Guardian Life/Dental was not paid timely for June 2011.
- Office personnel appear to be getting paid for their lunch break while other employees are not.

Criteria:

- Good internal controls dictate that all employees, except those statutorily exempt from this requirement, maintain and submit timesheets for payroll processing. To further strengthen internal controls, the timesheets should be signed by the employee and by the employee's immediate supervisor for verification and attestation of the accuracy of time reported.

**PERRY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (CONTINUED):

2011-05 The Fiscal Court Should Improve Controls Over Payroll Procedures (Continued)

Criteria (Continued):

- Pursuant to KRS 337.320(1), every employer shall keep a record of the hours worked each day and each week by each employee.
- Per the County's Policies and Procedures Manual a pay plan should be prepared and shall prescribe for each class a minimum and maximum rate of pay. KRS 64.530 states the Fiscal Court of each county shall fix the compensation of every County officer and employee. The County should list all employees and each salary or hourly pay rate. The County should also include the starting pay rates for entry-level positions. The County should revise this list as increases are approved by the Fiscal Court.
- Per the County's Policies and Procedures Manual each personnel file shall contain the following:
  - a) The employee's name, address, and telephone number where the employee may be reached;
  - b) Position title;
  - c) Hiring date;
  - d) Departmental assignment;
  - e) Application;
  - f) Salary;
  - g) All changes in status as a county employee;
  - h) Documented compliance with labor standards, EEO-4, I-9 requirements;
  - i) Performance appraisals and evaluations;
  - j) Commendations and disciplinary memoranda; and
  - k) Whatever additional information this ordinance, other governing laws, or the county requires.
- Per the County's Policies and Procedures Manual non-exempt employees shall receive overtime pay at the rate of 1.5 times the hourly wages for actual hours worked in excess of 40 hours in any workweek. Time off with pay (such as vacation or sick leave) shall not be considered as hours worked for overtime pay purposes. Holidays for which employees are paid, but which are not worked, cannot be used for computing overtime.
- If an employee actually works more than 40 hours in a week they should receive overtime wages. Per the County's Policies and Procedures Manual the county may change the official workweek at any time, but not to avoid overtime provisions.
- Payroll withholdings should be paid timely.
- Employees should only be paid for actual time worked except when utilizing holiday, sick, or vacation pay. KRS 337.355 states employers shall grant their employees a reasonable period for lunch. If the employee works during their lunch break there must be an agreement between the employer and employee in writing and signed by both on file.

Effect: Lack of proper internal controls for payroll increases the risk that incorrect payroll information will be processed by the County and that these errors will not be identified and corrected.

**PERRY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (CONTINUED):

2011-05 The Fiscal Court Should Improve Controls Over Payroll Procedures (Continued)

Cause: Lack of adequate controls over payroll procedures, lack of oversight over payroll withholdings, and failure to follow established procedures.

Recommendation: We recommend the Fiscal Court reevaluate their controls over payroll to determine the controls that would best address the findings listed under the condition section above. The Fiscal Court may determine the controls listed above under the criteria section are adequate or may decide to implement other controls to eliminate such internal control weaknesses in the future.

*County's Response: All issues over payroll procedures have been looked at and actions have either been taken care of or will be taken care of as soon as possible.*

2011-06 The County's Depreciation Schedule Should Be Updated For Additions Or Disposals

Condition: The County's depreciation schedule was not updated for additions or disposals.

Criteria: The County Treasurer should maintain a listing of all capital asset additions and disposals. This listing should be used to update the Treasurer's depreciation schedule. This listing should include any vehicles purchased by the Sheriff's office.

Effect: Material capital asset additions and disposals may occur and not be captured in the financial statements.

Cause: The Treasurer's failure to maintain a listing of capital asset additions and disposals.

Recommendation: We recommend that the Treasurer maintain a listing of capital asset additions and disposals and update such listing as assets are purchased and sold or otherwise disposed of.

*County's Response: There has been someone assigned to make sure the depreciation schedule is up to date and correct.*

NONCOMPLIANCES:

2011-07 The County Judge/Executive Should Prepare And Present Quarterly Reports To The Fiscal Court

Condition: During our review of Fiscal Court orders, we could find no evidence that reports were presented to the Fiscal Court.

Criteria: Per KRS 68.360(2), the County Judge/Executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund. The County Judge/Executive shall post the statement in a conspicuous place in the courthouse near the front door for at least ten (10) consecutive days, and transmit a copy to the Fiscal Court and to the state-local finance officer. The statement shall be read at the next meeting of the Fiscal Court.

**PERRY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

NONCOMPLIANCES (CONTINUED):

2011-07 The County Judge/Executive Should Prepare And Present Quarterly Reports To The Fiscal Court  
(Continued)

Effect: Financial statements users may not be aware of the County's financial position.

Cause: The Judge/Executive's failure to present quarterly reports to the Fiscal Court.

Recommendation: We recommend that quarterly reports be presented to the Fiscal Court in order to comply with KRS 68.360(2).

*County's Response: The County Quarterly Reports will be presented to the Fiscal Court.*

2011-08 The County Judge/Executive Was Overpaid During 2010

Condition: During our payroll testing, we noted that the County Judge/Executive appears to have been overpaid by \$3,148.

Criteria: Per KRS 67.705(2) the County Judge/Executive shall receive an annual salary pursuant to the salary schedule in KRS 64.5275, except in counties that contain an urban-county form of government or a consolidated local government, where the County Judge/Executive shall receive the salary set by the legislative body.

Cause: The bi-weekly salary was calculated based on twenty-six pay periods. There were twenty-seven bi-weekly pay periods during the 2010 calendar year. The Treasurer inadvertently paid the Judge/Executive one additional paycheck.

Effect: Overpayment of \$3,148.

Recommendation: We recommend the Treasurer assure that the number of pay periods in the calendar year be used when calculating the amount of the Judge/Executive's paychecks. We further recommend the Judge/Executive pay these funds back to the fiscal court.

*County's Response: Checking this.*

2011-09 The Jailer Was Overpaid During 2010

Condition: During our audit, we noted that the Jailer was overpaid by \$2,307.

Criteria: Per the Department for Local Government's calculations, the maximum allowable salary for the Jailer during the 2010 calendar year was \$65,233 and it appears he was paid \$67,540.

Effect: Overpayment of \$2,307.

Cause: The bi-weekly salary was calculated based on twenty-six pay periods. There were twenty-seven bi-weekly pay periods during the 2010 calendar year. The Treasurer inadvertently paid the Jailer one additional paycheck.

**PERRY COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2011  
(Continued)**

NONCOMPLIANCES (CONTINUED):

2011-09 The Jailer Was Overpaid During 2010 (Continued)

Recommendation: We recommend the Treasurer assure that the number of pay periods in the calendar year be used when calculating the amount of the Jailer's paychecks. We further recommend the Jailer pay these funds back to the fiscal court.

*County's Response: Checking this.*



**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**PERRY COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2011**

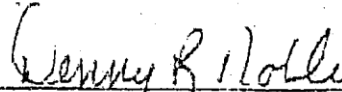


CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

PERRY COUNTY FISCAL COURT

For The Year Ended June 30, 2011

The Perry County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Denny Ray Noble  
County Judge/Executive



Tonya Delph  
County Treasurer

